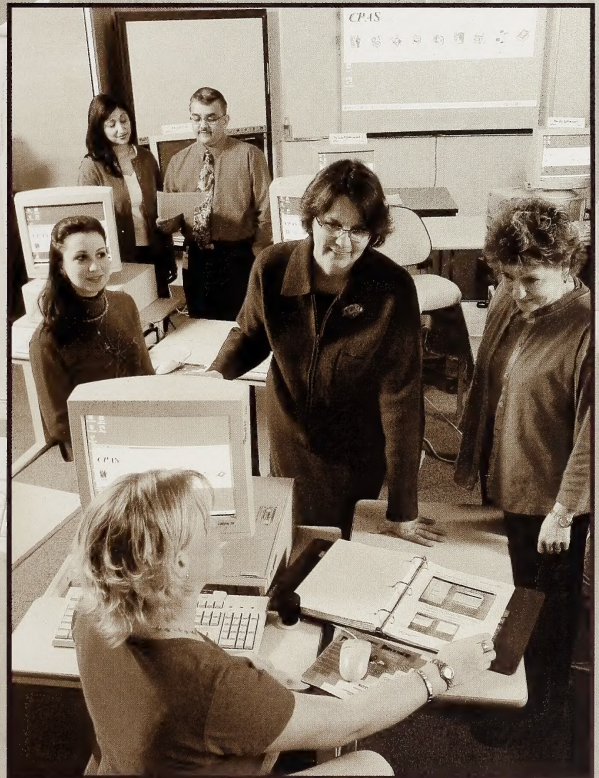
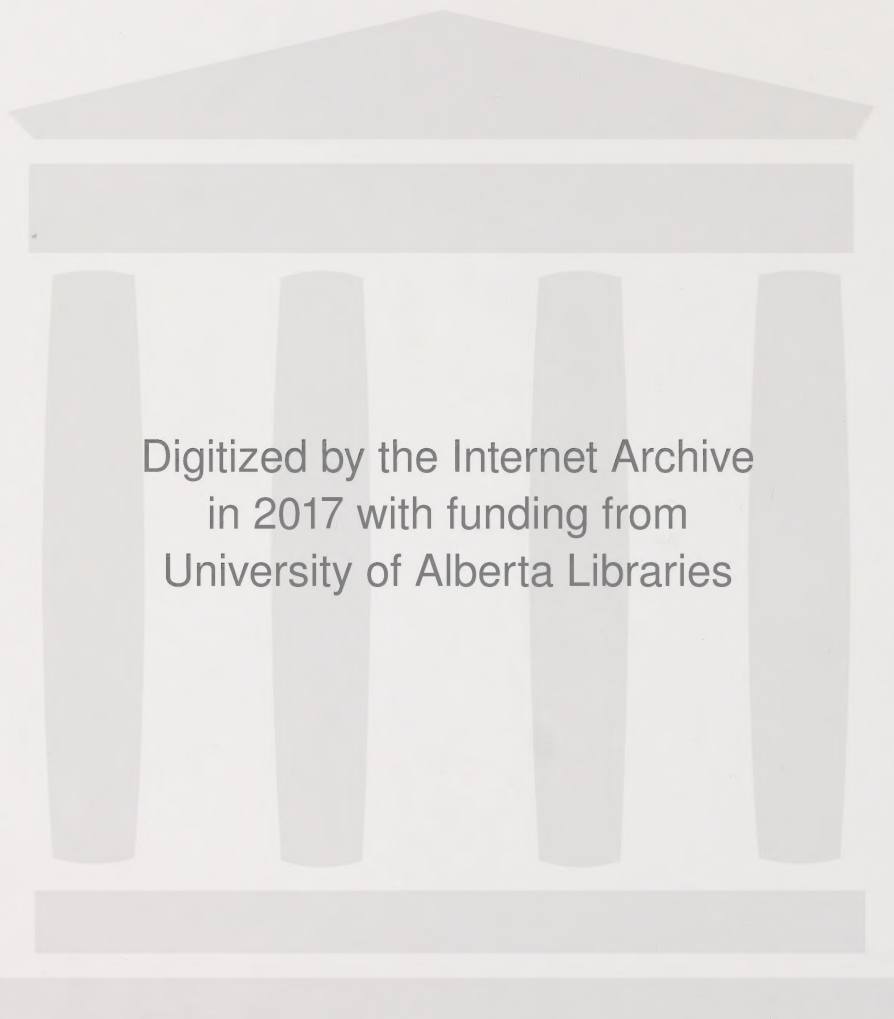


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# Alberta Pensions Administration Corporation

## 2002 Annual Report





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### Cover:

Employees participate in an interactive discussion of the new business system.

# Message from the Chair of the Corporate Board



Jack H. McMahon  
Chair, Corporate Board

On behalf of the Corporate Board of the Alberta Pensions Administration Corporation, I am pleased to present the seventh annual report for the year ended December 2002.

2002 was a landmark year for the Corporation as our multi-year effort to implement a new pension administration system saw its first real results. The first three plans went live on the new system in early December. In 2003 the other plans will go on the system. A project of this magnitude is not complete until the last plan is in place and stabilized. However, the first milestone was certainly cause for celebration throughout the organization. The Board congratulates the Corporation staff and project personnel who were instrumental in this important achievement.

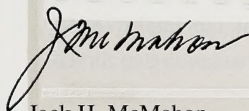
The Board can now focus on improvements from the new system: faster service delivery, more personalized information and improved response time to plan board requests for benefit changes, as well as new delivery channels such as electronic data submission. With these opportunities comes a renewed focus on long-term strategic planning and consultation with clients to ensure that their needs are being met. To this end, the Board is engaged in a review of the Corporation's business model and restructuring of the strategic planning template, as well as reviewing the planning process and the risk management framework that surrounds the development of strategic initiatives. The emerging focus on consultation has its roots in the need to foster improved relations with our client plan boards, particularly regarding the direct services that the Corporation provides to them but also so we can better anticipate the needs of the plans' participating employers and members.

In 2002 the Board fully endorsed the Corporation's alignment of business unit and personal goals to Board-approved strategies and the development of appropriate measures to validate and report on performance. The success of these activities can be seen in the 2003-2005 Business Plan. The Board also endorsed transformation initiatives directed at improving organizational effectiveness with a focus on helping staff adapt to the culture and norms of a customer-centric organization. Work undertaken to make the Corporation more self-sufficient, particularly for critical success elements, was approved by the Board. The most notable



of these initiatives was to recruit a Chief Information Officer and strategically establish information management and technology services in-house. These initiatives reduced the Corporation's risk from reliance on resources outside of our direct control.

During 2002 the Board again enjoyed the support of our client plan boards. We thank them for their confidence in us, and we will endeavour to continue to maintain this level of trust. The Board also wishes to thank the management and staff of the Corporation for their continued dedication during these challenging times.



Jack H. McMahon  
Chair, Corporate Board

April 1, 2003

A training session under way in a room specifically set aside for teaching staff how to use the software for the new business system. Two groups of 14 employees were trained over a two-month period.



# Message from the Chief Executive Officer

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David Smith  
Chief Executive Officer

In 2002 the Corporation and its customers entered a brand new world of pension administration. In this annual report we describe where we are with the exciting new pension administration system that was launched in December, and what's coming up in the way of new challenges, features and improvements in 2003.

I am pleased to have this opportunity to thank our employees for their extraordinary patience, focus and determination that turned the dream of a new system into a reality. Building a system to serve multiple, complex pension plans is an enormous task. It called upon the best efforts of not only the people on the project and transition teams, but also everyone else in the Corporation — including temporary staff hired to fill in for staff participating in the system project — who kept our service performance at a level that satisfied our customers.

When you change from a system established in the mid-1970's to one using the advanced software of today, virtually everything about your business is going to change. Our staff aren't just accepting change; they're leading the change with their ideas and hard work. It is for this reason that I am pleased to dedicate this annual report to the staff of the Corporation.

A stylized, handwritten signature in dark ink, appearing to read 'D. Smith'.

David Smith  
Chief Executive Officer



# Annual Reporting – A New Approach

Readers may notice that the format of this annual report is quite different from past reports. The Corporation is using this report to give a comprehensive view of how the Corporation fits in the pension picture. As well as reporting 2002 performance, we discuss where we get our mandate, what drives our business, our capabilities in doing what has to be done, and what's ahead for 2003.

The sequencing of information is in line with the recommendations of the Canadian Institute of Chartered Accountants (CICA) for annual reporting. Is the Corporation on the right track with this kind of annual report? How could it be better? If you have suggestions in this regard, contact Communications Director, Sam McBride, at the address or phone number on page 56 of this report or by e-mailing [sam.mcbride@gov.ab.ca](mailto:sam.mcbride@gov.ab.ca).

**The Transition Monitoring Team, made up of front line staff, assisted the Corporation in adjusting to dramatic changes in business processes.**

*Left to right: Theresa Fraufenfeld, Anne Claridge, Kevin Olineck, Don Leslie, Barb Buysen, Lesley Kelly, Donna Campbell and Lisa Ledwidge.*



# Profile of APA Corporation

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## MISSION

Alberta Pensions Administration (APA) Corporation collects contributions for public sector pension plans, maintains member accounts, educates and informs members and pays plan benefits. It also provides a range of services in support of people and organizations with governance responsibilities for these plans. The Corporation's mission is:



To provide comprehensive, reliable, timely and cost-effective pension services to our customers — the Boards, members, employers and pensioners of Alberta pension plans — when, where and how they are needed.

The Alberta Minister of Finance is the sole trustee and administrator of certain pension plans established pursuant to Alberta legislation. The Minister has entered into a Services Agreement with the Corporation for the administration of the following Alberta public sector pension plans:

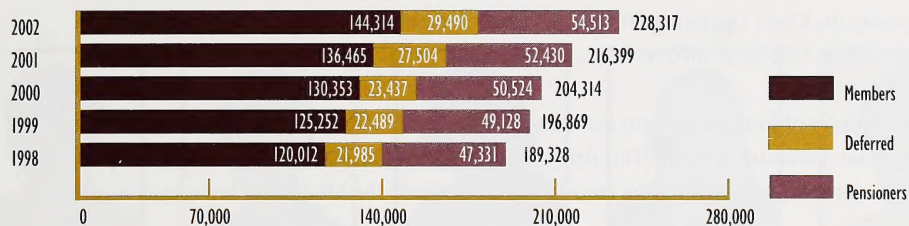
- > Local Authorities Pension Plan (LAPP);
- > Public Service Pension Plan (PSPP);
- > Special Forces Pension Plan (SFPP);
- > Management Employees Pension Plan (MEPP);
- > Supplementary Retirement Plan for Public Service Managers (MSRP);
- > Provincial Judges and Masters in Chambers (Registered) Pension Plan;
- > Provincial Judges and Masters in Chambers (Unregistered) Pension Plan;
- > Public Service Management (Closed Membership) Pension Plan; and
- > Members of the Legislative Assembly Pension Plan (Closed 1989).

Pursuant to this Services Agreement, the Corporation has entered into a Memorandum of Understanding with each of the boards of LAPP, PSPP, SFPP and MEPP. These Memoranda specify the services that are to be provided by the Corporation.

All of these plans are contributory defined benefit pension plans. At year-end, the plans comprised 173 thousand active and deferred members, 472 participating employers and 54 thousand pensioners. The combined assets of the plans were \$16 billion.

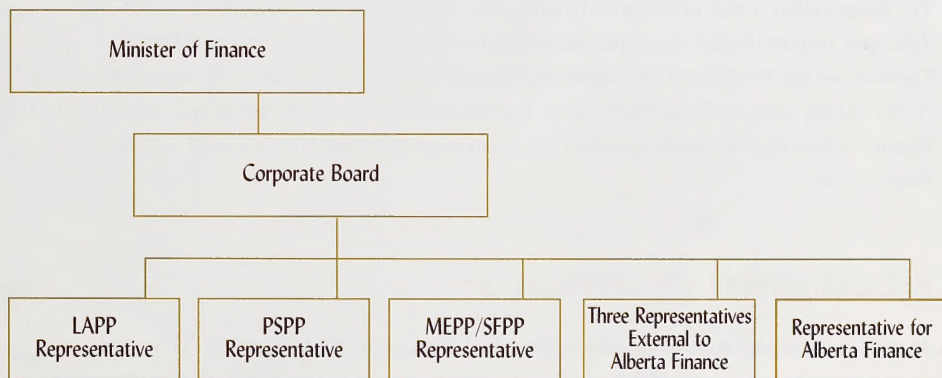


### Actual Customer Growth



## GOVERNANCE AND MANAGEMENT

The Corporation was formed November 1, 1995 under the Province of Alberta's *Business Corporations Act*. The Alberta Minister of Finance is the sole shareholder. The shareholder has executed a unanimous shareholder agreement which specifies the composition of the Corporate Board as follows:



The Board is required by the shareholder to:

- > Provide strategic direction to the Corporation;
- > Evaluate and approve strategic plans, business plans and budgets proposed by management;
- > Monitor and evaluate corporate performance;
- > Provide guidance on the resolution of issues of strategic significance; and
- > Appoint officers of the Corporation responsible for its management.

The shareholder appoints the Chief Executive Officer on advice of the Board. The Board appoints the Chief Operating Officer, the Chief Administrative Officer and the Chief Information Officer as officers of the Corporation.

The Minister of Finance has also executed a delegation of authority to the Board under the *Financial Administration Act*. This delegation gives the Corporation the powers it needs to carry out the functions specified in the services agreement with the Minister in her role as trustee.

The boards of four of the Corporation's customer plans (LAPP, PSPP, SFPP and MEPP) also have certain legislated authority respecting administration of their plans. Their authority includes:

- > Developing administrative policy guidelines for their plan; and
- > Reviewing administrative decisions of the Corporation with respect to their members and participating employers.

The Corporation works cooperatively with other agencies of the Government of Alberta that carry responsibilities for pensions, primarily the Pension Policy unit of Alberta Finance and the Investment Management Division of Alberta Revenue. The Corporation also works closely with the Local Authorities Pension Plan Corporation, which was established to manage a transition to an independent governance arrangement for the Local Authorities Pension Plan.

## RECOGNITION OF EMPLOYEES

At the fourth annual APA Corporation Awards Ceremony held March 20, 2003, award recipients included seven individuals for education milestones and 19 for dedicated service achievements. Other award recipients are pictured on the following page.



# Recognition Award Recipients



**Lisa Ledwidge**  
External Customer  
Service



**Julia Wu**  
Mentor



**Sheila Beissel**  
Leader



**Sonja Whitbourne**  
Internal Customer  
Service



**Kirsten Hayes**  
New Employee

## Team of the Year:

### Information Management and Technology

**Back row left to right:** Darcy Lang, Alfred Ng, Ben Wigger, Jason Gallant, Walter Richards, Mitzi Marano, Catherine Eichenlaub

**Middle row left to right:** Janice Burke, Sonja Whitbourne, Stan Petrica, Harvey Lidkea, Glen Sustrik, Jennifer Lake

**Front row left to right:** Bruce Campbell, Geralyn Zibrowski, Janet Finlaison, Angeli Chan, Carol Coroy

**Missing:** Philip So, Lian Willson, Dave Amsbaugh, Ricky Lau, Shirley Nelson-Caspell, Larry Patterson, Nat Ramachandran, Shane Riddell, Jerry Mychasiuk



# Management's Discussion and Analysis

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## VISION, CORE BUSINESSES AND GOALS

### VISION STATEMENT

The Corporation's mandate is restricted to delivering services to the pension plans under the trusteeship of the Minister of Finance. The Minister has specified that the Corporation is the administrator for these plans. Our wish is to be the chosen administrator in the event these plans eventually have the authority to make that choice.

### CORE BUSINESSES AND GOALS

The Corporation has categorized the services it must provide to meet stakeholder expectations into two core businesses: Pension Benefits Administration and Support Services to Sponsors and Trustees.

#### Pension Benefits Administration

Pension Benefits Administration comprises the essential functions of collecting pension contributions, maintaining membership records, paying benefits and providing the information members need to make informed benefit decisions.

In carrying out these functions under its administration, the Corporation aspires to the following goals:

> *Industry Best Practices for Pension Benefits Administration*

APA Corporation's administration services currently provided to our stakeholders include contribution and data collection; employer training; member education and counseling; inquiry handling and information distribution; benefit estimation and calculation; pension payments and tax compliance. The most important aspects of these services are quality, relevance, clarity, accessibility, reliability and speed. Plan boards require high quality pension services for their members and pensioners and consider the delivery of these services to be the top priority of the Corporation.

> *Competitive Cost of Administration Services*

Competitive cost means charges to plans that compare favourably to the costs of similar public or private sector organizations. Our customers generally see economy as the second major requirement of the Corporation.



> *Products that Meet Customer Demands*

Because our customers are legally obliged to use the Corporation as their service provider, the ability of employer sponsors and plan boards to offer competitive benefits to their employees and members is wholly dependent on the Corporation's readiness to offer new services.

> *Fast Economical Solutions to Service Requests*

The lead time for implementing new plan rules or even establishing new plans can be very short following a decision by the sponsors and trustees. The cost of implementation can be a deciding factor in whether to provide new benefits or to establish a plan under the administration of the Corporation.

## Support Services to Sponsors and Trustees

Ancillary to the core business, support services to Alberta Finance and pension boards include board support as well as other services detailed below. The Corporation does not directly provide all of these services to all plans. Plan boards may obtain support services from the Corporation, or may choose to have the Corporation contract some or all of them from third-party suppliers.

The Corporation's goal is to provide:

> *A Menu of Professional Services that Cater to Trustee and Sponsor Organizations with Varied Capacities and Constitutions*

Sponsors and trustees of the public sector plans currently administered by the Corporation are represented jointly through plan boards or committees, or by Alberta Finance. The ability of any one of these organizations to directly manage any of these functions depends on how it is constituted, especially its span of authority and the size of the plan it governs. Services currently provided by or through the Corporation to these organizations include policy research, legal, actuarial, financial management, secretariat, technology infrastructure, information technology services, facilities, human resources, accounting services and communications.

> *Expert Professional Service Delivery to Fiduciary Standards*

Professional services provided in support of fiduciaries must meet expert standards. Persons providing such services themselves acquire fiduciary responsibility and must behave and advise their clients accordingly, even when such advice is unsolicited.

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## KEY PERFORMANCE DRIVERS

There are certain needs that drive the Corporation's strategy, where superior performance is essential for the Corporation to achieve its vision. These drivers merit the direct, close attention of the Corporate Board and major stakeholders.

### DRIVERS FOR PENSION BENEFITS ADMINISTRATION

#### Member, Employer and Pensioner Satisfaction

There can be little doubt that the satisfaction of members, employers and pensioners is fundamental to the success of the Corporation. Customer satisfaction drives the Corporation's key strategies in meeting industry best practices for pension benefits administration, developing products that meet customer demands and delivering fast, economical solutions to new service requests. To understand the extent to which these customers are satisfied, the Corporation uses a comprehensive set of annual surveys.

#### Satisfaction Surveys

Each year the Corporation commissions an independent third party to conduct satisfaction surveys of members, employers and pensioners. The surveys are typically structured for reporting current satisfaction and changes from previous years. The surveys assess overall satisfaction, and typically include questions on specific services. This allows the Corporation to account for its overall performance and determine where management should focus its attention.

For all surveys, the focus is on evaluating the level of satisfaction with "what" is being delivered, "how" it is being delivered and "when" it is being delivered. For example:

- > Member surveys test satisfaction with instructions provided with a product or service; the clarity and completeness of the information provided; the timeliness of the delivery; the courtesy and competence of the staff dealt with; and overall satisfaction with the service received.
- > Employer surveys test the quality of the administrative instructions provided; the courtesy and competence of the staff dealt with; and overall employer satisfaction.
- > Pensioner surveys focus on the timeliness of payments; the clarity and completeness of the information received; the courtesy and competence of the staff dealt with; and overall satisfaction.



## Benchmarking Surveys

The Corporation participates in two benchmarking surveys that evaluate the Corporation's services against:

- > Other large Canadian public sector pension plan administrators; and
- > A worldwide sample of public sector pension plan administrators.

These surveys provide information on two levels — comparable service and comparable costs — that brings the flavor of a competitive market to the assessment of the Corporation's delivery. In addition, the worldwide survey provides useful details which enhance the comparability of the service measures by including ratings of complexity and workload.

## Cost Containment

Cost containment, a secondary need of our customers, drives our strategies for competitive cost of administration services. We measure our progress in cost containment by benchmarking administrative costs both in total and on a per-member basis.

Benchmarking total costs against financial plans and previous results does little to assess how competitive the Corporation is, but does enable honest assessment of whether there are any unjustifiable costs. Explanations of variances based on cause, rather than on the object of the expenditure, make management decisions transparent.

Benchmarking cost-per-member against peer organizations can provide a very solid indication of competitiveness. This information is available on a proprietary basis from benchmarking surveys on both a Canadian and worldwide basis.

## DRIVERS FOR SERVICES TO SPONSORS AND TRUSTEES

### Plan Board Satisfaction

It is the personal satisfaction of the plan boards, committees and delegates that would be the basis of their choice of provider of ancillary services. Careful attention to plan board satisfaction is the driver of strategies to maintain a menu of professional services that cater to trustee and sponsor organizations with varied capacities and constitutions. To understand the extent to which these customers are satisfied, the Corporation uses an independent third party to survey each plan board member annually.

As with members, employers and pensioners, the focus in serving plan boards is on what, how and when service is being delivered but tends to be more comprehensive because of the more extensive menu of services. For example, plan boards are surveyed about their satisfaction with administrative board support services, the quality and timeliness of the policy advice provided, the responsiveness of the organization in implementing decisions of the board and the quality of the communication products and services delivered.

## CAPABILITY TO DELIVER RESULTS

### FINANCIAL RESOURCES

The Corporation's funding requirements are approved by the Corporate Board and, as part of Alberta Finance's financial plan, by the Provincial Treasury Board. All of the Corporation's spending is recovered from the pension plan funds on the basis of an agreed upon cost allocation formula with plan boards.

The Corporation's approved capital and operating budget for 2002 was \$24.2 million. Additional funding of \$1.3 million was required during the year, primarily due to deferred spending from 2001 associated with the Corporation's business system development project.

The Board approved the Corporation's business plan through 2005. The 2003-2005 Financial Plan includes significant investment in a number of process development initiatives. Consequently, the demand for financial resources has increased and can be seen in the change between 2002 and 2003 financial plans.

#### Comparative Financial Plans (\$ million)

Financial Plan	2002		2003		2004		2005	
	Operating	Capital	Operating	Capital	Operating	Capital	Operating	Capital
2002	21.1	3.1	20.0	1.4	17.3	0.3	17.8	0.2
2003	22.0*	3.5*	26.6	4.4	21.6	3.6	22.8	3.1

\* Actual



## PEOPLE

### Staffing Levels

Staff utilization in 2002 was 164 full-time equivalents for both Operations and Project resources compared to the 159 full-time equivalents projected in the 2002-2005 Financial Plan, as shown in the following chart:

Comparative Financial Plans (FTEs)

Financial Plan	2002		2003		2004		2005	
	Operations	Project	Operations	Project	Operations	Project	Operations	Project
2002	143	16	140	16	128	4	129	—
2003	149*	15*	169	15	152	5	153	5

\* Actual

It should be noted that although the full-time equivalent count over the course of the year was 164, this actually represents positions occupied for only a portion of the year. The actual count needed to deal with the increase in work volumes and finalize the business system implementation was 184.

The increase in staffing levels between the 2002 and 2003 business plans resulted from the following initiatives and issues:

- > Workforce stabilization requirements;
- > New management model for the Corporation's information management and technology function; and
- > Assignment of resources to the business system implementation effort.

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## Workforce Stabilization

In 2002 the issue of retention of temporary staff recruited to backfill permanent staff assigned to the business system development project was addressed. While the Corporation could not guarantee future employment for all temporary employees, it was able to make some mitigating commitments including:

- > Ninety days notice prior to the end of temporary employment;
- > Professional re-employment services on termination; and
- > Permanent positions filled through competitions restricted to these employees.

In addition, the Corporation completed recruitment of a number of key positions, including a Chief Executive Officer, a Chief Information Officer, two human resources specialists and a policy analyst to deal with increasing work volumes.

## New Management Model for Information Management and Technology

In 2002 the Corporate Board approved a change from an outsourced information technology service provider to a blended model of in-house and contracted information technology talent. This decision was made to help the Corporation better manage the transition from our legacy system to the new business system. Under this direction, the Corporation created an in-house Information Management and Technology business unit. Late in the year, recruitment for 25 permanent positions commenced and was completed in early 2003.

## Assignment of Resources to the Business System Implementation Effort

Corporate resources were allocated to system testing early in the year to line up with the first implementation of the new business system in late 2002. The allocation of these resources, combined with the transfer of business expertise directly to the project in 2001 and significant increases in work volumes, continued to strain operational resources. The recruitment of temporary resources to alleviate these pressures stopped between October 2001 and April 2002 as a result of the Government of Alberta's hiring freeze. The freeze applied to the Corporation because the government, as shareholder, binds the Corporation to government-wide restraint programs due to the impact that corporate expenditures have on Alberta Finance's consolidated financial results. During this period, and throughout the year, the Corporation responded by increasing authorized overtime to 3,619 hours, a 188% increase from 2001. As soon as the freeze was lifted, recruitment commenced with the effect that by year-end, the expected staff complement was fully engaged.



## Knowledge and Skills

During 2002 the Corporation's focus on the implementation of the new business system resulted in significantly more attention to training than development. In 2002 the Corporation provided or supported 58 hours of training per employee, up from 56 hours in 2001.

A transition team, created to manage the organizational and cultural transition of the Corporation, identified the requirements and managed the delivery of training. This included:

- > Hands-on training with the new business system;
- > Desktop software refresher training; and
- > Transition management training.

In the coming year, the Corporation will continue to provide training plans for all employees as the implementation of the business system is completed. Also, the development plans for staff must be re-examined before the end of 2003 to address:

- > Expansion of strategic thinking and project management talent; and
- > The succession needs of the Corporation.

## Working Conditions and Benefits

The Corporation introduced a number of benefits to help employees balance personal and work responsibilities and to improve the attractiveness of the Corporation as an employer. An Alternative Work Arrangements program began in October for non-management employees. The program includes flex-time and a compressed work week.

A Flexible Benefits program started in April, allowing staff to select from various levels of health benefits to suit their personal needs. The program also includes a Health Spending Account and provision for employer contributions to the account based on unused personal absence days at the end of each year.

A two-year contract with the Alberta Union of Provincial Employees came into effect in January 2002. The new agreement included a competitive salary structure for bargaining unit members.

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## Employee Satisfaction

In the summer of 2002, 87% of staff who responded to a survey felt positive about the future of APA Corporation. In the year-end survey, 94% of the respondents indicated they were satisfied or very satisfied with the Corporation. Areas identified for improvement include:

- > Concerns with the amount of overtime worked and pressures from increased work volumes;
- > Management / staff interaction; and
- > Input on the development of operational plans of the Corporation.

These issues will be reviewed and resolved through an integrated human resources strategy.

## PROCESSES AND TECHNOLOGY

### Business Processes

Experience gained developing and implementing our new business system in 2002 has triggered the start of fundamental changes in the corporate approach to process development.

An initial step was the temporary suspension of plans to implement separate document management, document imaging and workflow management proposals so that a broad vision for information management could be developed. This due diligence will ensure that these initiatives are properly integrated and support business efficiencies.

In the fourth quarter, management decided to establish a permanent business architecture unit in 2003 that will provide the standards and infrastructure for disciplined process development. The Corporation recognizes rigorous business process models will lead to more efficient application development, earlier recognition of process efficiencies, more reliable business case analyses and superior training programs.

Concurrent with a more rigorous approach to the development of business processes, the Corporation plans to change the organizational structure. It will begin by integrating data administration staff with pension benefit administration staff and orienting the combined staff around specific groups of employers.



The Corporation sees three distinct advantages to this structure:

- > Corporate staff will be familiar with issues and capabilities of a finite number of employers so that services, including additional training, can be tailored to their needs;
- > Employers will contact a single source within the organization for all their questions; and
- > Corporate staff will be more familiar with the status of transaction processing, particularly submission errors that are delaying the calculation of pension entitlements.

During 2002 the Corporation focused on the following business processes:

- > Completion of modeling and development of pension administration processes in support of one-stop service. The new business architecture team will continue this work over the next two years.
- > Moving forward with certain elements of the risk management strategy including:
  - i. A preliminary evaluation of processing controls and adequacy of reporting to plan boards was conducted by a major consulting firm. The results of the evaluation were very satisfactory; and
  - ii. The development of a comprehensive business resumption plan that addresses all critical operations of the Corporation and its essential services. The framework will be completed in 2003, resulting in an improved state of readiness.
- > Making activity-based costing processes in support of cost allocation to client plans ready for implementation in January 2003. The Corporation will further enhance the system developed in support of these processes to provide output-based accounting. Activity-based costing is significant because it signals a change in the way the Corporation thinks of accounting dollars in terms of output rather than input. Management believes that output accounting is an important contribution to good governance.
- > Establishing new strategic management processes that incorporate analysis of emerging trends that may affect the pension administration industry. The new processes will be validated and fully implemented in 2003.

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## Systems

The Corporation reached a significant milestone on December 2, 2002 when it successfully implemented a new pension administration system for the Public Service Pension Plan (PSPP), the Management Employees Pension Plan (MEPP) and Supplementary Retirement Plan for Public Service Managers (MSRP). This first major deliverable replaces the old pension administration system installed 27 years ago. Two other client plans, Local Authorities Pension Plan (LAPP) and Special Forces Pension Plan (SFPP), will go on the new system in 2003. Also in 2003, decisions on the utilization of the business system for the Members of the Legislative Assembly Pension Plan; Public Service Management (Closed Membership) Pension Plan; Provincial Judges and Masters in Chambers (Registered) Pension Plan; and Provincial Judges and Masters in Chambers (Unregistered) Pension Plan will be made.

Migrating from the mainframe-based legacy applications to a new client-server environment, the new system builds upon licensed software from a major Canadian provider, CPAS Systems Ltd., to consolidate 19 different business applications. The new system is the foundation for a series of process improvements which target service quality enhancements and efficiencies. There will be flexibility for fast turnaround of client requests for new services.

First among the service improvements will be Web-enabled self-service facilities for participating employers and plan members. The Web Services initiative started in 2002 and will be completed in 2003. Employers will be able to submit data electronically and correct transactions online in a secure environment; produce daily and monthly reports; and access printable forms for manual submission.

In 2003 online services will be launched for plan members to securely:

- > View and print their last member annual statement;
- > View their current personal information; and
- > Perform online pension estimates and other calculations.



The business system project will also include a review of the pension payroll functionality. The current payroll application is housed on a mainframe system and the Corporation pays the cost of the service to the Government of Alberta. As a mainframe application no longer fits within the architecture the Corporation is using, the Corporation will undertake a review of options to replace this system during 2003. One option to be investigated early in the year is base functionality in the pension administration software that the Corporation licenses from CPAS Systems Ltd. Based on this proof of concept, next steps will be determined to best meet the needs for delivering pensioner payroll services.

Enhanced telephone technology to help support front line staff respond to calls from members, employers and pensioners will be in place in 2003.

## Infrastructure

A new five-year lease on the Corporation's premises provided the opportunity to resolve vulnerability to environmental changes identified in a study of the existing data centre. These significant risks made it the Corporation's most significant, immediate priority.

In 2002 the Corporation began constructing its new data centre which houses servers in an environmentally-secure facility. The servers are integrated in a Storage Area Network (SAN), reducing the risk of network downtime. The result is an architected, cost-effective, secure and reliable technology infrastructure that ensures effective business continuity.

Delivery of the new business system during the year created an immediate need to address compatibility issues with the Corporation's computer workstations. A decision to terminate the lease of the existing desktops and replace them with purchased units addressed this issue and positioned the organization to effectively manage future changes to its technology environment. Workstation monitors will be evaluated in 2003 to ensure they support business and operational needs.

## RESULTS

### RESULTS: PENSION BENEFITS ADMINISTRATION

APA Corporation is oriented to delivering two core business functions: Pension Benefit Administration and Support Services to Sponsors and Trustees. In assessing the Corporation's success at achieving the goals established for these business functions and being able to promote the Corporation as the administrator of choice, the Corporation focuses on achieving high levels of satisfaction with the services delivered, and doing so at a competitive cost. Consequently, this evaluation of results is structured within this context:

- > Services delivered;
- > To what standards;
- > Satisfaction achieved; and
- > Analysis of variances.

### Member Services

The following chart shows comparative volumes for member services. Pressures from increased work volumes are seen mainly in pension estimates, interviews and seminars, all of which reflect the growing interest of an aging population in their future pension benefit.

#### Comparative Volume Statistics

Category	2002	2001	Increase (Decrease)
Active Members	144,000	136,000	6%
Deferred* Members	29,500	27,500	7%
Benefit-Related Inquiries	44,600	43,300	3%
Pension Estimates	19,100	16,700	14%
Termination Payouts	3,900	3,900	0%
Service Purchase Requests	3,500	3,400	3%
Retirement Options	2,900	2,800	3.5%
Personal Member Interviews	2,400	1,800	30%
Correspondence	1,400	1,700	(17%)
Member Seminars	190	160	19%

*\*Terminated members who retain pension plan benefits*



In April 2002 the Corporation implemented a new Termination Options package in line with requirements of the legislation governing private sector pension plans. In conjunction with this release, the Corporation used focus groups and surveys to evaluate the content and clarity of the product and then incorporated the suggestions in the product delivered with the business system implementation.

### 2002 Performance Measurement for Members

Despite the volume pressures and the significant disruption that the implementation of a new business system brings, performance for services delivered to members generally exceeded standards during 2002. A declining trend was beginning to emerge as the December implementation date approached. The following chart shows the performance achieved compared to the standard for critical business products and services.

#### Performance Results for Member Services

Service Measure	Performance Measure	Results		
	(Calendar Days)	Target	2002	2001
Pension Estimates	5 days from completed application.			
	4th quarter: 10 days from completed application.	90%	94%	83%
Retirement Options (including Disability Pension Adjudication and Death Benefits)	5 days from completed application.			
	4th quarter: 12 days from completed application.	90%	87%	90%
Termination Payments	21 days from completed application.	90%	96%	100%
Optional Service Costing	21 days from completed application.	90%	97%	83%
Reciprocal Transfers	Internal — 90 days from completed application.	90%	100%	88%
	External — 180 days from completed application.	90%	100%	100%
Member Annual Statement For Active Members	Mailed to employers by March 31.	75%	84%	78%
	Mailed to employers by June 30.	100%	100%	100%
Telephone Inquiries	24 hours to respond.	95%	100%	100%
Written Inquiries	Respond within 14 days of receipt.			
	4th quarter: Respond within 17 days of receipt.	75%	87%	81%
	Acknowledge within 14 days of receipt.			
	4th quarter: Acknowledge within 17 days of receipt.	25%	7%	10%

The Corporation's strong performance during 2002 is attributable to hiring additional staff, increased training and overtime hours. The Corporation relaxed performance standards for the fourth quarter as staff were deployed in preparation for the new system, particularly to the area of system testing. The lower standards will be in effect in some areas through the third quarter of 2003.

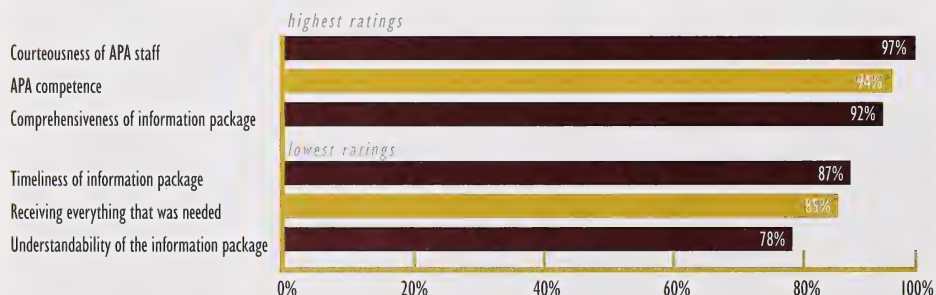
The below standard performance recorded for retirement options is due to a large proportion of manual calculations needed to produce pension option packages. This situation will be remedied by the new business system.

From a member's perspective, the key deliverable is the member annual statement. By the end of March 2002, 84% of the annual statements were mailed to employers for distribution to members. Most of the remaining 16% were not mailed out until the second quarter because the Corporation was awaiting sufficient data from employers.

### Member Satisfaction

Overall levels of satisfaction reported by members decreased by six percentage points from 95% in 2001 to 89% in 2002. The 2002 response rate was 18%.

#### 2002 Member Satisfaction Survey



### Costs and Service Levels

The per-member-cost at \$71, excluding major system implementation costs, are significantly below the Canadian peer group average of \$91. All services are delivered in less time than the peer group average. Compared internationally, using a different methodology, cost-per-member was \$63, less than the peer group median of \$83, while service and complexity ratings are similar.

## **Planned Changes for Member Services**

Over the multi-year implementation schedule for the new business system, it was not possible to address improvements to member services. The Corporation is addressing this demand in a deliberate manner that reflects the importance rated by employers. For example, work is under way on several initiatives:

### *Significant Improvement in the Timeframe to Deliver Pension Products and Services*

The implementation of the new business system will integrate a number of disjointed systems and increase the level of automation in the calculation of pension benefits. The first implementation was in December 2002 for the Public Service Pension Plan (PSPP), the Management Employees Pension Plan (MEPP) and Supplementary Retirement Plan for Public Service Managers (MSRP). In 2003 the next implementation will be for Local Authorities Pension Plan (LAPP) followed by Special Forces Pension Plan (SFPP). In such a major implementation, the standard is to prepare for two to four months of instability before processes and systems settle in and begin to operate as planned. Applying this standard means that it will likely be the fourth quarter of 2003 before the efficiencies from the increased automation will be seen. However, once this has occurred, the Corporation expects there will be improvement in the time needed to deliver products and services — and better still, improved consistency in that delivery.

Other efficiency enablers, such as document imaging and workflow technology, are also being considered for further reducing timeframes. An important objective in the latter part of 2003 is the creation of targets and timelines for delivering these improvements in performance.

### *New Products*

One of the first new products that the new business system will deliver is an Enrolment Package for new registrants. This package will welcome the member to the pension plan, introduce particular stakeholders such as the plan board and provide specific information such as the *Members' Handbook* and important deadlines that will help members better understand their pension benefit. This enhancement is a direct result of the plan boards to improve the consistency of the delivery of generic plan information to members.



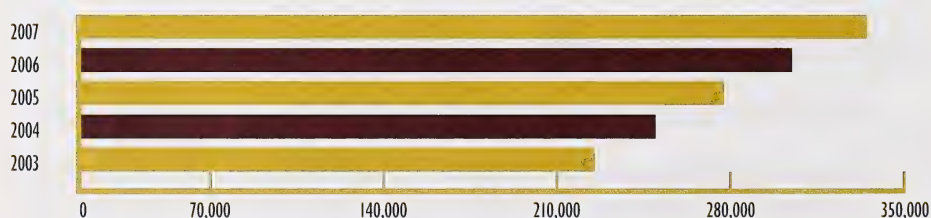
### *Increased Personalization of Pension Products*

To personalize pension information to a plan member's personal circumstances, it is necessary to calculate benefits that reflect his or her marital status and pension partner's age. Another important aspect of personalization is the inclusion of beneficiary information in regular reporting such as the member annual statement. As a result, the Corporation has undertaken substantial effort to collect pension partner and beneficiary information. The data will be collected directly from plan members. To avoid online input that would use valuable front line resources, business processes have been created that will allow this information to be input to member records via batches from a data keying service.

### *Increase In Face-To-Face Communication*

The Corporation has long recognized the need to maintain a level of personal contact with plan members. Often this contact can be as brief as a reassurance of the member's understanding of information contained in a particular information package, but it is of immense importance to the member. The baby boom bulge that is just entering retirement age shows that pension administrators should be expecting volume increases in the order of 10% per year for the next 10 years. As a result, additional resources are being recruited in 2003 to address this emerging need.

### *Projected Customer Growth*



### *New Delivery Channels*

Web-enabled services to members are scheduled for delivery in 2003. Members will be able to view and print their member annual statement, view personal information and perform estimates using their own data. The eventual integration with retirement planning tools will supplement the pension data and help members develop a complete retirement income plan.

### *Improved Services to Deferred Plan Members*

The ability to maintain member addresses in the legacy system was a limiting factor in being able to deliver services to deferred plan members. With the implementation of the new business system, this constraint has been eliminated. It is expected that over the next two years, the Corporation will establish plans and arrangements to better serve this important segment of pension plans.

## **Employer Services**

The service delivery model used by the Corporation is dependent on employers to deliver most of the generic plan information, instruct members on how to apply for services, distribute all requested information, provide explanations of benefit calculations and options, and deliver member annual statements. This model tends to produce lower charges for administration services than the model which deals directly with all member inquiries and product and service delivery. Consequently, the relationship that has developed between the Corporation and participating employers is that of a partnership in the delivery of pension benefit services to members.

Employers are responsible for accurately and promptly reporting all service, salary and contribution information on which the member's pension benefit will be calculated. This responsibility has implications for how the Corporation structures business processes, given the variation in the size and range of capabilities of participating employers. Employer size varies from many thousands of employees and extensive computerized support to those with only one or two employees and very little automated support.

The Corporation is committed to dealing with this variation and to being responsive to employer needs despite these differences. In fact, it is often the small employers who experience the most difficulties in meeting their obligation as they do not have resources to deal with pension matters on a full-time basis as is the case with large employers. As a result, the Corporation deals with all types of employer inquiries: processing and reporting requirements; providing explanations on regulations such as what qualifies as pensionable salary; and explaining how to calculate and remit contributions.

During 200, the Corporation responded to over 9,500 telephone inquiries from employers and initiated 7,900 outbound calls to deal with employer issues.

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The Corporation is responsible for providing the entire infrastructure necessary for pension benefit administration. This includes all computer systems, applications, structured business processes and knowledgeable resources. It also includes all communications materials for employers in the form of an employer manual, information sheets, information updates, regular status reports and special reports via the quarterly *Pension News* newsletter and Web site content for the four major plans.

### **2002 Performance Measurement for Employers**

During 2002 the Corporation processed 450,000 transactions and handled 28,300 submission errors from 472 participating employers. This error rate is down by 10% from 2001 but at nearly 6% still indicates a level of preventable work that the Corporation intends to tackle under the new business system once it is stabilized.

Typically, the early part of any year is the busiest as this is when employers submit their annual records. Generally, the timeliness of submitting the records was excellent in the first two months of the year with 95% of plan member records reported by the end of February 2002. This rate is comparable or slightly higher than prior years. However, it also took until the end of June to receive the last 5% of all reports. This is a continuing problem as a member annual statement cannot be produced until all of the individual's information has been received. Over the next two years, the Corporation will undertake a review of employer submission errors to determine what assistance is needed to improve the percentage of transactions updated by the end of February.

During 2002 the tri-annual review of employer compliance with plan rules was fully under way. The review is a relatively new adaptation of the previous process which relied on an independent auditor's opinion. The new process requires considerably more review and validation by the auditor because it is structured as a comprehensive set of specified procedures, the results of which are reported to the Corporation in the *Accountant's Report*. During 2002, the Corporation received 309 reports, or about 67% of the employers. This large volume reflects the high level of work to initiate the new process. Over the next few years, the Corporation will focus on getting the volumes more evenly distributed to one-third in each of the three-year reporting cycles.

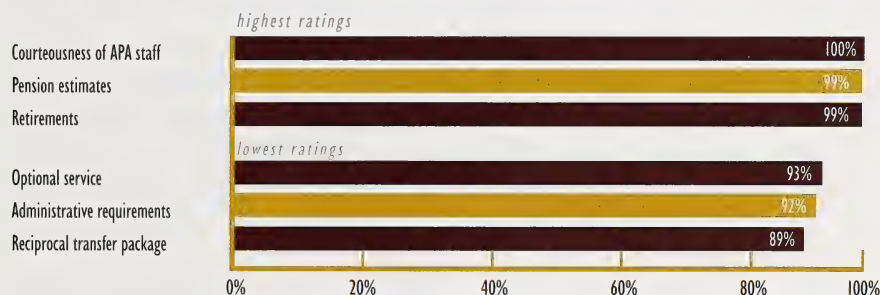


The implementation of the new business system had a significant impact on the level of communications to participating employers. All Public Service Pension Plan and Management Employees Pension Plan forms, manuals, information sheets and member handbooks were updated in line with new standards and functions. Fifty employer workshops covering standard plan administration requirements and explanation of changes resulting from the new business system implementation were also delivered during 2002. The year 2003 will see the same services delivered for the Local Authorities Pension Plan and Special Forces Pension Plan. Contribution rate and regulatory changes were also communicated during the year.

### Employer Satisfaction

Overall satisfaction of employers (97%) was slightly higher than the previous year (95%), but the proportion of very satisfied responses was lower by 7%. The 2002 response rate was 45%.

#### 2002 Employer Satisfaction Survey



### Planned Changes for Employer Services

#### Service Delivery Model

Over the next few years the Corporation expects that there will be some subtle changes in the service delivery model that currently sees all active member products, including the member annual statements, distributed via employers. There are two factors driving this change: privacy concerns and a desire on the part of the plan boards to provide more consistent delivery of member annual statements.

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As a result, the Corporation initiated plans to collect pension partner information directly from the member in the new business system and will begin to deliver sealed benefit information to employers for distribution. With the new business system the capability to maintain member home addresses is now available and the Corporation can now deliver annual statements and benefit calculations directly to the plan member. This change will occur in 2003 for Public Service Pension Plan and Management Employees Pension Plan members and in 2004 for members of the Local Authorities Pension Plan and Special Forces Pension Plan. The implications of these changes and the emerging needs of members and employers will be carefully analyzed in the next two years to see what support processes will be needed in this new environment. Specifically, the role and responsibility of employers will be highlighted for analysis and the applicability of structured agreements will be investigated.

#### *Employer Data Interchange Capabilities*

In early 2003 Web-enabled confidential employer services were initiated that provide employers with the capability to submit individual transactions or complete files over the Web via a secure line. Participating employers are also able to receive, correct and resubmit transaction errors and receive and print reports from this same secure site. This new functionality has the potential to significantly change how small and medium-sized employers report their pension information. Large employers typically already use electronic media to report transactions, but they will also be able to correct errors quickly via the Web if they use this channel to submit their files. The reduction in turnaround time to correct errors should enable reductions in the time to deliver benefit payments to plan members. Consequently, during 2003 the Corporation will initiate plans to expand the training efforts of employers to promote the use of this new delivery channel and will be setting targets for this expansion.

## Pensioner Services

The payment of benefits to plan members is a core function of the organization. With 54,500 pensioners, APA Corporation runs the largest payroll in the province — and pensioners have come to expect excellent service.

### 2002 Performance Measurement for Pensioners

The primary obligation of the Corporation to pensioners is the provision of reliable payroll services. To date, this objective has been achieved. During 2002 the number of pensioners rose 3.7%. Over the year there were 645,300 payments, as well as 32,700 transactions for additions, deletions and changes.

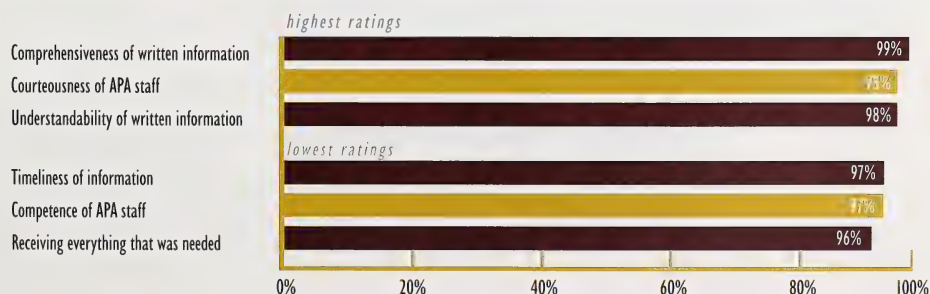
A secondary obligation to pensioners is to provide access to knowledgeable staff to answer their questions. In 2002 the Corporation responded to 16,700 inquiries from pensioners and handled 312 individual interviews.

The Corporation maintains the entire infrastructure needed to provide payroll services, including the capability to add cost-of-living adjustments. Direct deposit is mandatory for pensioners residing in Canada, but it is not yet available for those outside of Canada. The Corporation provides for deduction of extra income tax at the pensioner's request and provides premium deductions to a third party to facilitate post-retirement benefit programs for some employers.

### Pensioner Satisfaction

Overall satisfaction with the Corporation's services was 98% compared to 97% in the previous year. The 2002 response rate was 30%.

#### 2002 Pensioner Satisfaction Survey





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## **Planned Changes for Pensioner Services**

### *New Format and Information Package for the Coordinated Benefit*

Under the current rules governing the pension plans, pensioners have the option to receive a supplement to the base pension before age 65 in exchange for a lower base pension after age 65. The coordination option enables the pensioner to try to achieve a more level income before and after age 65 when Canada Pension Plan (CPP) and Old Age Security (OAS) benefits can be drawn. The coordinated benefit is the single most misunderstood benefit in the plans today — pensioners have often forgotten that they agreed to the reduction in their pension after age 65 in exchange for the increase in their benefit before age 65, or they drew their CPP benefit early at a reduced level and therefore are not able to replace the same level of income.

In 2003 plans are in place to completely restructure the form and the information package surrounding coordination. Pending regulatory change, the benefit to be paid to the pension partner or beneficiary upon the death of the member will not be affected by the recovery of the coordination amount. In addition, communication to retiring members will start to focus on the reduction at age 65 as opposed to the supplement before age 65. This will enable plan members to focus on the replacement level of income they need to target at age 65. Also, annual statements will be issued to pensioners informing them of the date and amount of the reduction.

### *New Services*

The provision of post-retirement benefits to pensioners is not currently included in the Corporation's services. However, the flexibility to expand this service to plan boards in the future is needed. Any solution to replace the pension payroll system will need to take this into account.

## RESULTS: SERVICES TO SPONSORS AND TRUSTEES

### Future Service Changes

The Corporation currently provides policy research, legal, actuarial, financial management, secretariat, technology infrastructure, information technology services, facilities, human resources, accounting services and communications to plan boards based on their specific selection of services. All boards use support services including the handling of agendas, minutes and correspondence. They also use some level of policy and legal support, particularly on items and issues that relate to the plan rules and income tax compliance. All boards receive communication support for their annual report and a quarterly *Administrator's Report*. The LAPP Corporation rents space from APA Corporation and obtains its payroll services and technology infrastructure from the Corporation.

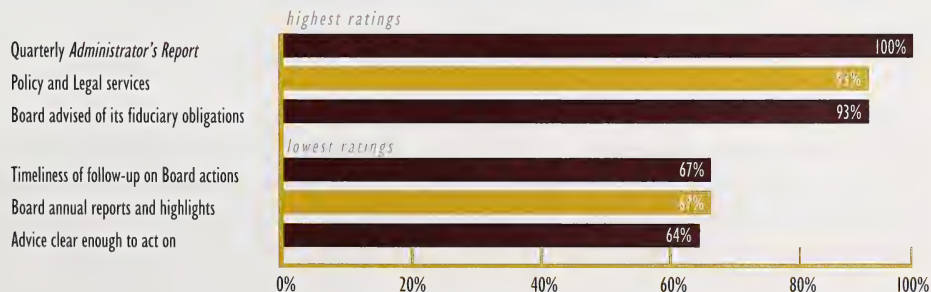
### Pension Board Satisfaction

For 2002 the Corporation surveyed pension board member satisfaction on:

- > Board support services;
- > Policy and legal services;
- > Communication services;
- > Implementing board decisions; and
- > Overall satisfaction with services.

At 93%, overall satisfaction of board members with the Corporation's service was 18 percentage points higher than the previous year. The 2002 response rate was 51%.

### 2002 Board Member Satisfaction Survey



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## **Planned Changes for Services to Sponsors and Trustees**

The Corporation is obliged to assure that:

- > The plans are being administered in accordance with the plan rules and income tax regulations;
- > There are appropriate processes in place to control cash receipts and disbursements;
- > Standards and practices exist to manage the security of records; and
- > The business is protected from catastrophes such as accidents and disasters.

The requirement to deliver this assurance through a formal compliance certificate to each plan board is a high priority for the organization early in the year.

### *Improved Customer Relations*

A key strategy of the Corporation is to improve customer relations by significantly increasing consultation with key stakeholders. The objective is to gain improved understanding of their needs and expectations in order to better anticipate service requirements. One intended focus is increased communication through monthly meetings with representatives of the plan boards and Alberta Finance to report on progress compared to plans or to identify any new needs or issues. Improved communication will also minimize fiscal obstacles through early recognition of possible service scope changes in the business and financial plans.

Another focus is the development and maintenance of a high level of technical competence in the design of pension and ancillary benefits, in the understanding of fiduciary obligations and in the understanding of administrative services available. At the heart of this is a drive within the organization to enrich our resident expertise and to expand it to all facets of the business. There is a clear intention to develop rigorous business cases to support decisions on benefit changes and administrative arrangements and to implement peer reviews to promote quality work. The Corporation is considering structures that will enhance accountability by providing direct feedback to the Corporate Board.

### *Improved Benchmarking*

The delivery of service to plan boards currently lacks a rational basis for measuring the performance of the Corporation because of the limited capacity to establish appropriate comparison. The result is that there is no ability to provide assurances that the right services are being provided, that best practices are being employed, that delivery is superior to other providers and that quality is of the highest order. During 2003 the Corporation will assess the service scope, quality and potential to expand in these areas through surveys, interviews, industry benchmarking and active participation in the pension administration community.



## RESULTS: FINANCIAL

### Financial Review of Operations

On page 45 of the Corporation's Financial Statements, costs are described as:

- > Operating costs before the business system and plan-specific costs (\$14.2 million): the continuing costs of the services that the Corporation provides to pension plans;
- > Plan-specific costs (\$2.0 million): costs incurred at the direction of plan boards for support services they obtain from other service providers; and
- > Business system costs (\$5.7 million): that part of the current year investment in the development of our new business systems that we expense in accordance with generally-accepted accounting principles.

The financial statements reflect business system capital costs as \$2.5 million and other capital costs amounting to \$1.0 million.

### Continuing Costs of Services

#### Operating Costs before Business System and Plan-specific Costs (\$ million)

Business Plan	2002		2003		2004		2005	
	Operating	Amortization	Operating	Amortization	Operating	Amortization	Operating	Amortization
2002	14.2	0.4	15.0	0.4	14.5	0.4	15.3	0.3
2003	13.7*	0.5*	15.6	2.1	15.1	2.9	16.2	3.5

\* Actual

In 2002 the most significant unbudgeted pressures on continuing costs were:

- > \$202 thousand: high first-year costs associated with the decision to bring information technology management in-house, that should result in lower future costs;
- > \$173 thousand: unexpected increases in government charges for data processing, banking and audit; and
- > \$212 thousand: costs associated with terminating desktop leases and increased amortization resulting from the decision to purchase computer hardware rather than continue with a more costly leasing arrangement;

offset by:

- > \$351 thousand: unexpected savings from vacant positions and rent; and
- > \$567 thousand: unexpected, temporary relief of payroll cost escalation that did not materialize and the reduction of miscellaneous training costs due to the focus on the business system training.

The net result of these and other minor factors was a \$376 thousand (2.5%) favourable variance from the budget.

The 2003-2005 Financial Plan anticipates continuing increases in workforce costs to deal with the administrative burden of higher retirement rates. Future costs may be impacted as a result of the negotiation of a new collective agreement effective January 1, 2004.

Notwithstanding efficiencies realized from the business system implementation, the implementation also results in increasing amortization charges. Although the value-added life of such a major development may be as long as fifteen years, the more conservative accounting treatment by the Corporation result in costs being written off over five years.

#### Plan-specific Costs (\$ million)

Business Plan	2002	2003	2004	2005
2002	1.7	0.7	0.7	0.7
2003	2.0*	2.5	2.5	2.7

\* Actual

Management does not influence costs incurred directly by plan boards other than by exercising reasonable oversight regarding the legitimacy and reasonability of the amounts charged for services. The primary reason for the variance of \$328 thousand over budget was the increased use of actuarial and investment consultants by all plans.

The current financial plan reflects ongoing support for LAPP, previously expected to be funded outside of the Corporation after 2002. Plan boards are predicting further spending increases.

### Business System Investment (\$ million)

Business Plan	2002		2003		2004		2005	
	Operating	Capital	Operating	Capital	Operating	Capital	Operating	Capital
2002	4.8	2.8	3.9	1.0	1.8	0.1	1.6	0.0
2003	5.7*	2.5*	6.4	3.4	1.1	2.9	0.5	2.1

\* Actual

The 2002 investment in the business system is reported in Note 15 of the financial statements. Costs previously reported were the costs of implementing the new pensions administration software and Web-enabled functionality. The estimates of these costs have not changed since the time of the last annual report. Variances from budget simply reflect minor changes in the timing of project deliverables.

During 2002 the Board approved additional future spending of \$3.5 million on information management process improvements comprising:

- > Document management;
- > Document imaging; and
- > Workflow management.

Management expects that spending on the information management initiative will peak in 2003 and be completed in 2004. Estimates for this initiative will be refined in 2003.

### Non-Business System Capital Expense (\$ million)

Business Plan	2002	2003	2004	2005
2002	0.3	0.4	0.2	0.2
2003	1.0*	1.0	0.7	1.0

\* Actual

In 2002 capital spending exceeded budget by \$700 thousand, resulting from the following:

- > \$604 thousand: 243 desktop personal computers and related software were purchased rather than leased to take advantage of the benefits associated with the buy decision; and
- > \$124 thousand: Construction of a data centre facility commenced in the year to mitigate against environmental and information technology infrastructure risks.



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## RISK MANAGEMENT

### FINANCIAL

#### Failure to Secure Sufficient Funds

The Corporation's annual operating and capital three-year financial plan is approved by the Corporate Board. The Minister of Finance, as sole shareholder, has determined that the budgetary decisions of the Corporate Board should, in turn, be subject to approval by the Treasury Board as a segment of the consolidated financial plan of Alberta Finance. Should the Government have to apply rigorous budgetary constraints, the Corporation could fail to secure sufficient funds to sustain operations.

Services to plan boards and their members could be negatively impacted or not delivered if budget requests were denied. The Government has never rejected a budget request from the Corporation. The risk is therefore rated *low*.

#### Instability in Client Base

The continued uncertainty regarding the future of the pension plans administered by the Corporation protracts uncertainty that the Corporation will have a sufficiently large client base to adequately absorb costs. The Corporation's mandate prevents it from engaging new clients that would expand its client base.

In 2003 Alberta Finance is committed to:

- > Reviewing the current pension governance framework of the Corporation's client plans towards identifying improvements to the current structure;
- > Working with Local Authority Pension Plan stakeholders to determine if the plan should become independent; and
- > Clarifying roles, responsibilities and administrative processes related to the functions that the Minister of Finance has delegated to the Corporation.

The outcomes of these commitments could have a significant impact on the future of the Corporation as each could alter the current legislated relationship between the Corporation and its client plans.

The constraints currently imposed on the Corporation regarding new customers preclude the Corporation from significantly mitigating this risk by expanding beyond its current client base.

To mitigate the risks associated with one or more plans being granted the ability to choose its own pension administrator, APA Corporation is committed to meeting or exceeding customers' expectations so that each plan board would, given the authority, want to continue to use the Corporation's services. In the short-term (one to three years), the risk is rated as *low*.

Should a client plan with a significant member base be granted the authority to choose its own pension administrator and decide to terminate its relationship with APA Corporation, serious consequences could result. The Corporation would make significant changes to its infrastructure in terms of both human resources and technology. Ultimately, the Corporation's ability to provide service at an acceptable level and cost could be affected.

## PEOPLE

### Service Demand Outstripping Capacity of Organization

There are three sources of demographic pressures on the Corporation. The first is the baby boomer bulge that is just now entering the retirement system. The second is the trend to increasing plan membership with fewer downsizing initiatives at the employer level. The third is the lack of predictability in both. The Corporation can reasonably estimate increases in workload, but the effect that social and economic events can have on the estimates is much more difficult to incorporate in the models. Social and economic events include factors such as investment returns in the private savings market and employer initiatives and incentives for early or late retirement.

If retirements increase beyond management's expectations, actual service level performance compared to standard would decline until the staff complement could be increased to compensate. The Corporation considers the risk of any significant variance in the retirement and membership estimates to be *low*, as the new business system was designed to accommodate higher workloads without performance degradation.

The Corporation could increase the frequency of the analysis of work volumes if new trends start to emerge. Work could be restructured relatively quickly to gain efficiencies in high volume, repetitive areas if more senior resources were required to address unexpected

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volumes. Communication with employers could be increased to enhance the accuracy of the estimates and market conditions, and the effect on plan members could be analyzed and incorporated in the model.

### Potential Inability to Retain and Attract Staff

The implication of the demographic pressure from the baby boomer bulge is also apparent in the Corporation's workforce. Analysis shows that 30% of the workforce will be of minimum retirement age in five years time. The statistics are far more dramatic for management where close to 50% will be at retirement age within five years. In an industry that is dependent on the knowledge and skills of its human resources, the ability of the Corporation to retain and attract employees is a critical success factor.

The likelihood that the Corporation will not have the required skilled workforce to deliver services over the next one to three years is considered to be *low* risk. After three years, however, replacement risk increases as managers attain early retirement age. The risk, however, depends on the Alberta economy, its place relative to other provinces and how the private sector views Edmonton in its expansion plans.

The Corporation has taken a number of measures to position itself to have sufficient and knowledgeable employees to deliver services both now and in the future. These include:

- > Adopting a competitive salary and benefit structure that is designed to maintain pace with market changes;
- > Designating core position competencies which allow the Corporation to focus training and development on identified gaps; and
- > Ensuring programs are in place to make the Corporation an employer of choice. These programs include flexible employee benefit plans, health and wellness programs, and alternative working arrangements that allow employees to balance work and family demands.

In addition, training and development strategies in support of succession needs will be in place in 2003 and include developing capabilities in project management and strategic thinking.



## PROCESSES AND TECHNOLOGY

### Delay in Realizing Efficiencies of Business System

The 2002-2005 Business Plan had projected savings from manpower reductions beginning in 2003 as a result of the implementation of the business system, Web Services and efficiencies from four proposed business cases. Because of project delays, particularly with Web Services and business case initiatives, staff reductions will not be realized as early as originally projected.

However, now that the initial phases of the new system and Web Services are in production, an assessment of business efficiencies can be better addressed. The Corporation is in the process of developing a detailed staffing plan and re-forecasting the timeframes for expected staff savings.

### Business Continuity

Vital operations of the Corporation are vulnerable to disaster from external or internal forces including: system failure; human negligence; natural disasters or an unforeseen cause that triggers an interruption of critical business function, resulting in the inability to perform business operations.

While the probability of disaster occurring is rated *low*, the Corporation will develop concisely written, comprehensive business resumption plans (BRP) that incorporate mitigating approaches such as preparation, prevention, response and recovery.

The focus of the BRP will be first and foremost on:

- > Safeguarding infrastructure and critical operations, ensuring employee safety and security; and
- > Maintaining essential client services and critical operations.

The result of a comprehensive BRP will ensure continuity of the business and the preservation of the Corporation.

# Management's Responsibility for Financial Reporting

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The financial statements and information in the 2002 Annual Report are the responsibility of Alberta Pensions Administration (APA) Corporation and have been approved by management and the Corporate Board.

The financial statements have been prepared in conformity with Canadian generally accepted accounting principles and, of necessity, include some amounts that are based on estimates and judgments.

To discharge its responsibility for the integrity and objectivity of financial reporting, Alberta Pensions Administration Corporation, acting in the capacity of pension administrator, maintains a system of internal accounting controls comprised of written policies, standards and procedures, and a formal authorization structure. These systems are designed to provide management with reasonable assurance that transactions are properly authorized, that reliable financial records are maintained and that assets are adequately accounted for and safeguarded.

The Corporate Board is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its Audit Committee. The Committee reviews the financial statements and annual report and recommends them to the Board for approval. The Committee meets with management and external auditors to discuss internal controls, auditing matters and financial reporting issues.

The Auditor General of Alberta, the Corporation's external auditor, provides an independent audit of operations and financial statements. His examination is conducted in accordance with Canadian generally accepted auditing standards and includes tests and other procedures that allow him to report on the fairness of the financial statements prepared by management.



David Smith, CA  
Chief Executive Officer

March 14, 2003



Terry Eliuk, CMA  
Chief Administrative Officer

# Auditor's Report

To the Shareholder of Alberta Pensions Administration Corporation

I have audited the balance sheet of the Alberta Pensions Administration Corporation as at December 31, 2002 and the statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta  
February 14, 2003

A handwritten signature in black ink, appearing to read 'Fred J. Dunn', with a stylized flourish at the end.

Fred Dunn, FCA  
Auditor General



# 2002 Financial Statements

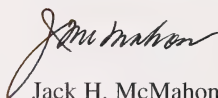
## Alberta Pensions Administration Corporation Balance Sheet

December 31, 2002

	(\$ thousands)	
	2002	2001
<b>ASSETS</b>		
Cash (Note 5)	\$ 46	\$ 423
Accounts receivable	5	28
Prepaid expenses	2	6
Due from pension plans	3,925	2,222
Property and equipment (Note 6)	6,918	4,028
	<b>\$ 10,896</b>	<b>\$ 6,707</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
Liabilities		
Accounts payable and accrued liabilities	\$ 3,039	\$ 1,998
Accrued salaries and benefits	342	156
Accrued vacation pay	597	510
Capital lease obligation	—	15
Deferred capital contributions (Note 3(b))	6,918	4,028
	10,896	6,707
Shareholder's equity		
Share capital (Note 7)	—	—
	<b>\$ 10,896</b>	<b>\$ 6,707</b>

The accompanying notes are part of these financial statements.

On behalf of the Board:



Jack H. McMahon  
Chairman of the Board



R. C. (Rick) Milner  
Audit Committee Chairman

# **Alberta Pensions Administration Corporation** **Statement of Income**

year ended December 31, 2002

	(\$ thousands)		
	Budget 2002 (Note 16)	Actual 2002	Actual 2001
<b>Revenue</b>			
Service revenue (Note 8)	\$ 20,905	\$ 21,881	\$ 15,365
Miscellaneous revenue	156	79	157
<b>Total revenue</b>	<b>21,061</b>	<b>21,960</b>	<b>15,522</b>
<b>Operating costs before APEX business system and plan specific costs</b>			
Salaries and benefits	8,391	8,112	6,180
Data processing	3,396	2,953	2,824
Materials and supplies	976	1,493	904
Contract services	827	644	559
Rent	555	502	477
Amortization	400	465	371
<b>Operating costs before APEX business system and plan specific costs</b>	<b>14,545</b>	<b>14,169</b>	<b>11,315</b>
APEX business system costs (Note 15)	4,796	5,743	2,448
<b>Operating costs before plan specific costs</b>	<b>19,341</b>	<b>19,912</b>	<b>13,763</b>
Plan specific costs (Note 11)	1,720	2,048	1,759
<b>Total operating costs</b>	<b>21,061</b>	<b>21,960</b>	<b>15,522</b>
<b>Net income</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

## Alberta Pensions Administration Corporation

### Statement of Cash Flows

year ended December 31, 2002

	(\$ thousands)	
	2002	2001
Operating activities		
Net income	\$ —	\$ —
Items not requiring cash		
Amortization	601	439
Capital contributions recognized	(601)	(439)
	—	—
Changes in non-cash working capital (Note 9)	(362)	436
	(362)	436
Investing activities		
Acquisition of property and equipment		
APEX	(2,477)	(2,640)
Non-APEX	(1,014)	(332)
	(3,491)	(2,972)
Financing activities		
Decrease in capital lease obligation	(15)	(45)
Capital contributions received	3,491	2,972
	3,476	2,927
Increase (decrease) in cash for the year	(377)	391
Cash at beginning of year	423	32
Cash at end of year	\$ 46	\$ 423



# Notes to the Financial Statements

December 31, 2002

## 1. AUTHORITY

The Alberta Pensions Administration Corporation (APA) was incorporated under the *Business Corporations Act*, Chapter B-9, Revised Statutes of Alberta 2000. The issued share of the Corporation is owned by the Province of Alberta, and accordingly the Corporation is exempt from income taxes.

## 2. NATURE OF OPERATIONS

### (a) Public Sector Pension Plans

The Minister of Finance of Alberta, operating under the authority of the *Public Sector Pension Plans Act*, Chapter P-41, Revised Statutes of Alberta 2000 and the *Financial Administration Act*, Chapter F-12, RSA 2000, is responsible for administering the following pension plans.

Local Authorities Pension Plan

Public Service Pension Plan

Management Employees Pension Plan

Supplementary Retirement Plan for Public Service Managers

Special Forces Pension Plan

Public Service Management (Closed Membership) Pension Plan

Provincial Judges and Masters In Chambers (Registered) Pension Plan

Provincial Judges and Masters in Chambers (Unregistered) Pension Plan

Members of the Legislative Assembly Pension Plan

All administrative services required by the pension plans are provided by the Corporation pursuant to an agreement with the Minister through December 31, 2004. These services include the collection of contributions, payment of benefits and refunds, communication to stakeholders, pension plan board support services and other services specifically approved by individual pension boards.

## Note 2 Nature of Operations (continued)

### (b) Other Pension Plan

The Universities Academic Pension Plan (UAPP) Board of Trustees requested, and APA agreed, in an Administrative Services Agreement dated December 20, 2000, to provide certain pension administrative services to the Board of Trustees for the period January 1, 2001 to December 31, 2002. Effective January 1, 2003, APA no longer provides administrative services to UAPP.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Property and Equipment

Property and equipment is recorded at cost.

Property and equipment is amortized on a straight line basis over the estimated useful life of the asset as follows:

Computer equipment	2 to 3 years
Computer software	2 to 3 years
Furniture and equipment	5 years
Telephone system	3 years
Leasehold improvements	Lease period
APEX business system	5 years

The costs of the Alberta Pensions Excellence (APEX) business system, a business process re-engineering initiative, directly attributable to the development, betterment or acquisition of computer software are capitalized. These activities include:

Costs associated with documenting plan rules and developing specifications for programming new pension software.

Purchase and installation of new pension software.

Program modifications to new pension software.

Property and equipment under construction, including software development projects, is not amortized until completion and implementation.

### (b) Recognition of Deferred Capital Contributions

Contributions from the Public Sector Pension Plans to acquire property and equipment are recorded as deferred capital contributions. These amounts are recognized as revenue on the same basis as the acquired property and equipment is amortized to operating costs.

### Note 3 Summary of Significant Accounting Policies (continued)

#### (c) Pensions

The Corporation participates in multi-employer pension plans with related government entities. Pension costs included in these statements comprise the cost of employer contributions for current service of employees during the year.

### 4. VALUATION OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of accounts receivable, accounts payable and accrued liabilities are estimated to approximate their book value.

### 5. CASH

Cash consists of a deposit in the Consolidated Cash Investment Trust Fund which is managed to provide competitive interest income while maintaining maximum security and liquidity of depositors' capital.

### 6. PROPERTY AND EQUIPMENT

	(\$ thousands)			
	2002			2001
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	\$ 1,622	\$ 787	\$ 835	\$ 282
Software development projects	113	113	—	—
Computer software	512	400	112	155
Furniture and equipment	528	287	241	320
Telephone system	43	43	—	—
Leasehold improvements	142	18	124	6
APEX business system (Note 15)	5,810	204	5,606	3,265
	<b>\$ 8,770</b>	<b>\$ 1,852</b>	<b>\$ 6,918</b>	<b>\$ 4,028</b>



## 7. SHARE CAPITAL

	2002	2001
Authorized		
Unlimited number of common shares		
Unlimited number of preferred shares		
Issued		
1 common share, for cash (Note 1)	\$ 1	\$ 1

## 8. SERVICE REVENUE

The Corporation charged each plan with its respective share of the Corporation's operating costs and plan specific costs as follows:

	(\$ thousands)	
	2002	2001
Public Sector Pension Plans		
Local Authorities Pension Plan	\$ 12,780	\$ 8,887
Public Service Pension Plan	5,676	4,045
Management Employees Pension Plan	1,104	686
Special Forces Pension Plan	827	627
Public Service Management (Closed Membership) Pension Plan	286	178
Members of the Legislative Assembly Pension Plan	68	61
Provincial Judges and Masters in Chambers (Registered) Pension Plan	65	61
Supplementary Retirement Pension Plans		
Supplementary Retirement Plan for Public Service Managers	330	217
Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	61	46
Other Pension Plan		
Universities Academic Pension Plan	684	557
	<b>\$ 21,881</b>	<b>\$ 15,365</b>

## 9. CHANGES IN NON-CASH WORKING CAPITAL

	(\$ thousands)	
	2002	2001
Changes in non-cash working capital consist of the following:		
Decrease/(increase) in accounts receivable	\$ 23	\$ (2)
Decrease in prepaid expenses	4	14
Increase in due from pension plans	(1,703)	(992)
Increase in accounts payable and accrued liabilities	1,041	1,240
Increase in accrued salaries and benefits	186	121
Increase in accrued vacation pay	87	55
	<b>\$ (362)</b>	<b>\$ 436</b>

## 10. RELATED PARTY TRANSACTIONS

The Corporation received the following services at amounts which approximate market from:

		(\$ thousands)	
		2002	2001
Alberta Finance	Accounting and administrative	\$ 23	\$ 31
Alberta Infrastructure	Postage and parking rental	59	104
Alberta Corporate Service Centre	Data processing and postage	758	708

The Corporation also provided services to the Public Sector Pension Plans as disclosed in Notes 8 and 11.

## 11. PLAN SPECIFIC COSTS

The Corporation makes certain payments on behalf of the pension plans. These costs, which are incurred directly by the pension plans, and which the Corporation does not control, are as follows:

	(\$ thousands)	
	2002	2001
Remuneration for Pension Plan Boards	\$ 162	\$ 120
Salaries and benefits	314	253
Contract services	1,205	1,039
Materials and supplies	367	347
	<b>\$ 2,048</b>	<b>\$ 1,759</b>

## 12. SALARIES AND BENEFITS DISCLOSURE

	(\$ thousands)			
	2002			2001
	Salary (a)	Benefits and Allowances (b)	Total	Total
Chairman of APA Board (c)	\$ 24	\$ —	\$ 24	\$ 20
Board Members of APA (c)	48	2	50	32
Executives:				
Chief Executive Officer (d)(e)(f)	142	27	169	158
Executive Director Operations and Corporate Secretary (g)	132	23	155	126
Executive Director Finance and Administration (e)(g)	119	26	145	115
Executive Director Pension Policy	113	16	129	112
Executive Director Corporate Development (g)(h)	91	16	107	—
Chief Information Officer (g)(i)	43	9	52	123

- (a) Salary includes regular base pay, honoraria, incentive pay and other lump sum payments.
- (b) Benefits and allowances include the employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, group life insurance, long-term disability, WCB premiums, professional memberships, tuition fees and vacation payouts.
- (c) Remuneration paid to the Chairman and four (2001: three) Board Members is classified as contract services and is paid in accordance with the fee structure approved by the Minister of Finance.
- (d) Position was reclassified from Chief Operating Officer effective February 4, 2002.
- (e) Position was occupied by two individuals consecutively in 2002.
- (f) Automobile provided, no dollar amount included in benefits and allowances figures.
- (g) Benefits and allowances include vacation payouts to the Executive Director Operations and Corporate Secretary \$5,000 (2001: \$4,000), the Executive Director Finance and Administration \$9,000 (2001: \$nil), the Executive Director Corporate Development \$4,000 (2001: \$nil) and the Chief Information Officer \$nil (2001: \$4,000).
- (h) Position created on March 4, 2002.
- (i) Position was reclassified from Executive Director of Information Technology effective October 1, 2002. Position was occupied by two individuals for a period of five months in 2002.



### 13. PENSIONS

The Corporation participates in the Management Employees Pension Plan and Public Service Pension Plan which are multi-employer pension plans. The expense for these pension plans is equivalent to the annual contributions of \$430,000 for the year ended December 31, 2002 (2001: \$348,000).

### 14. COMMITMENTS

The Corporation has entered into agreements with minimum annual commitments as follows:

- (a) A lease agreement with the Landlord for office space.

	( \$ thousands)
2003	\$ 557
2004 to 2007	\$ 540

- (b) A fixed price agreement with a service provider for the development of the APEX business system.

	( \$ thousands)
2003	\$ 3,593

- (c) A lease agreement for an automobile.

	( \$ thousands)
2003	\$ 9
2004	\$ 9
2005	\$ 1

### 15. APEX BUSINESS SYSTEM

The APEX business system will provide a fully integrated system of enhanced pension administration services to employers, members, pensioners and pension plan Boards. These enhancements will be accomplished through the implementation of new pension software, web based functionality and process improvements. Funding for the APEX business system is provided by contributions from the Public Service Pension Plan, the Local Authorities Pension Plan, the Management Employees Pension Plan and the Special Forces Pension Plan.

## Note 15 APEX Business System (continued)

### (a) New Pension Software and Web Based Functionality (Implementation Phase)

Costs incurred, expensed, capitalized and amortized during the year were as follows:

	(\$ thousands)	
	2002	2001
Costs incurred during the year	\$ 8,220	\$ 5,088
Costs expensed during the year		
Alternatives phase	—	309
Implementation phase	5,607	2,071
Amortization	136	68
	5,743	2,448
Costs capitalized during the year	2,477	2,640
Costs amortized during the year	(136)	(68)
Unamortized cost at beginning of year	3,265	693
Unamortized cost at end of year	\$ 5,606	\$ 3,265

The approved operating and capital budget for this phase is:

	(\$ thousands)	
	Budget	Actual to December 31, 2002
New Pension Software	\$ 16,801	\$ 11,438
Web Based Functionality	1,802	1,357
	\$ 18,603	\$ 12,795

### (b) Process Improvements

Operating and capital budgets for the following process improvements have been approved. No costs have been incurred to December 31, 2002.

	(\$ thousands)
	Budget
Document Management	\$ 520
Document Imaging	1,613
Workflow	1,085
	\$ 3,218

## 16. BUDGET

The 2002 budget was approved by the Board of Directors on November 21, 2001.

## 17. COMPARATIVE FIGURES

Certain 2001 figures have been reclassified to conform to the 2002 presentation.



# 2003 Corporate Directory

## CORPORATE BOARD MEMBERS

Jack H. McMahon, FCA, Chair  
Business Consultant

Donald Cummings, MBA, CMC  
Business Consultant

Ulysses Currie  
Member, SFP Board

Peter Kruselnicki, P. Eng  
Deputy Minister of Finance

R.C. (Rick) Milner, CA  
Business Consultant

Leonard C. Pederson  
Chair, PSP Board

Richard West  
Chair, LAP Board

## CORPORATE BOARD COMMITTEES

### Audit Committee

R.C. (Rick) Milner, Chair

Ulysses Currie

Richard West

### Compensation Committee

Jack. H. McMahon, Chair

R.C. (Rick) Milner

Peter Kruselnicki

### Business System Strategy Committee

Jack H. McMahon, Chair

Donald Cummings

R.C. (Rick) Milner

Ron Liteplo  
Chief Executive Officer, LAPP Corporation

Theresa Ostrum  
Chair, MEP Board

Larry Murray  
Senior Policy Advisor, PSP Board

Linda Sinclair  
Representative, SFP Board

Stan Petrica  
Business System Project Director

David Smith  
President and Chief Executive Officer

## CORPORATE EXECUTIVE

### Officers of the Corporation

David Smith  
President and  
Chief Executive Officer

Jill Wlosek  
Chief Operations Officer and  
Corporate Secretary

Terry E. Eliuk  
Chief Administrative Officer

Janet Finlaison  
Chief Information Officer

### Other Members of the Executive

Kevin Olineck  
Executive Director,  
Operations

Ian Pregitzer  
Executive Director,  
Corporate Development

Stan Petrica  
Business System  
Project Director

Sam McBride  
Director,  
Communications

Nicola Poulter  
Director,  
Human Resources

## CORPORATION OFFICE

Alberta Pensions  
Administration Corporation  
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